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ANNUAL REPORT

NATIONAL TEA CO.

FOR THE YEAR ENDING DECEMBER 31, 1934

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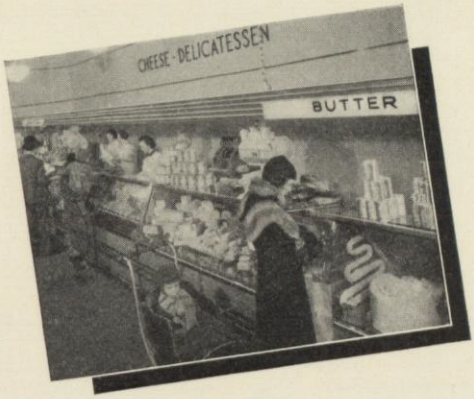
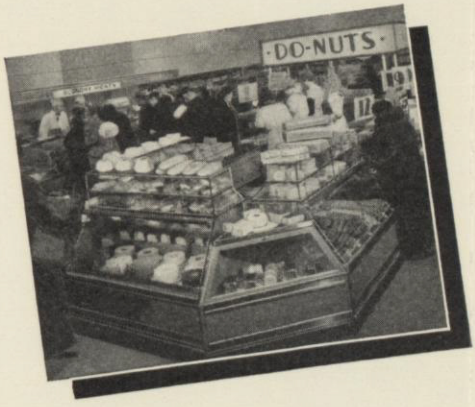


National Tea Co.'s largest and finest complete food market, recently opened, shows an unusually attractive front and a well-planned interior.

This new complete market has 12,000 sq. ft. of floor space, and boasts the longest steel shelving installation in the world. Many smart new features give it distinction.



1000 Crosby Street, Chicago,
February 18, 1935.

To the Stockholders of the
National Tea Co.

I am presenting herewith, for your consideration, the annual report of your Company for the year ending December 31, 1934, as prepared by Arthur Young & Co.

The result of operations for the year, after making provision for Federal Taxes, is a profit of $462,752.17 equivalent after Preferred Dividends to $0.60½ per share on 630,000 shares of outstanding Common Stock. This result compares with a profit of $1,180,390.13 for the year 1933, equivalent after Preferred Dividends to $1.70 per share on 644,953 shares of outstanding Common as of that date.

The sales for the year including sales made direct from the warehouse on contract amounted to $62,789,250.22 as compared with sales for 1933 of $65,457,655.89, (including sales taxes of $484,080.04) or a decrease of approximately 4%. At December 31, 1934, the Company had in operation 1,245 stores of which 450 were combination grocery and meat markets, as compared with 1,299 stores at the end of 1933, of which 372 were combination grocery and meat markets.

On December 11, 1934, the Company called its outstanding 5% Gold Notes due May 1, 1935 and redeemed them on January 10, 1935, out of current funds and from the proceeds of the sale (privately to a small group of purchasers, none of whom were officers or directors of the Company) of $3,000,000.00 par value 5% Sinking Fund Notes, due December 15, 1937. The purchasers of the new Notes were granted options to purchase 30,000 shares of Treasury Common Stock of the Company at the rate of ten (10) shares for each $1,000.00 principal amount of Notes purchased at a price of $12.00 per share if purchased on or before December 15, 1935, or $15.00 per share if purchased after December 15, 1935, and during the period up to and including December 15, 1937.

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Your Directors feel that this financing is very satisfactory, especially when the present condition of the security market is taken into consideration, and that the financial position of the Company is materially improved.

From the very beginning and throughout the year 1934 many previously unheard of problems presented themselves as obstacles to be overcome. A strict compliance on our part with Code provisions, while the enforcement program of the NRA was not effectively developed to enforce compliance in the competitive field, was one of the outstanding conditions interfering with our ability to obtain a normal profit during the greater part of the year. We have the Federal Administrator's assurance that compliance will be more general from now on.

While we continue to see demands from selfish interests for inconsistent legislation against multiple store distribution we are pleased to note that the producer (farmer), as well as the consuming public is becoming keenly conscious of the fact that the principles developed in the distribution of food and groceries—the greatest necessities of life—by chain stores have proven to be of great economic value to them; and we, therefore, feel confident that this wave of inconsistency which has been unusually strong in the Middle West, where National Tea Co. operates, will soon subside.

I am pleased to announce that National Tea Co.'s personnel is keenly alert and trained to merchandising along modern, scientific and practical lines and that I view the future prospects of the Company as considerably brighter than they have been for some time past.

Respectfully submitted,
Geo. Rasmussen
President.

CONSOLIDATED

DECEMBE

ASSETS

CURRENT ASSETS:		
Cash on Hand and in Banks		$ 1,482,867.74
United States Government Bonds, at Cost (Market Value, $414,791.19)		406,287.50
Notes Receivable, less Reserve for Doubtful Notes		13,451.98
Accounts Receivable—		
Trade	$ 206,257.96	
Due from Relief Agencies (of which $1,179,265.35 has been received in 1935)	1,488,226.34	
Due from Nateco Realty Trust	35,000.00	
Other	136,265.60	
	$1,865,749.90	
Less: Reserve for Bad Debts	35,957.26	
		1,829,792.64
Inventories of Merchandise and Supplies on hand and in transit, certified as to quantities and condition by officials of the Company and valued at cost or market, whichever is lower		6,196,468.84
Tax Anticipation Warrants, at Cost		35,193.94
Total Current Assets		$ 9,964,062.64
EMPLOYES' STOCK SUBSCRIPTION CONTRACTS: (8,150 shares Preferred Stock National Tea Co. sold on contracts and held, along with Real Estate, as security)		32,837.78
CASH IN CLOSED BANKS, LESS RESERVE		35,858.03
MORTGAGES AND NOTES RECEIVABLE		37,352.52
INVESTMENTS:		
Nateco Realty Trust (represented by 500 Certificates of Beneficial Interest, being 50% Ownership at Cost, which is less than book value)	$ 668,870.51	
Rana Investment Company—50% Interest at Cost	500.00	
Sundry	4,246.00	
		673,616.51
PROPERTIES—AT COST:		
Land	$3,168,543.98	
Buildings	$ 6,303,896.40	
Machinery, Fixtures and Equipment	8,075,840.38	
Delivery Equipment	1,109,093.28	
	$15,488,830.06	
Less: Reserve for Depreciation	6,579,737.27	
	8,909,092.79	
		12,077,636.77
GOODWILL		1.00
DEFERRED CHARGES:		
Extraordinary Expenditures on Improvements of Leaseholds, etc. being amortized	$ 592,323.74	
Prepaid Taxes, Insurance, etc.	137,376.73	
		729,700.47
		$23,551,065.72

The President and Board of Directors,
National Tea Co., Chicago

We have made an examination of the Consolidated Balanc statement of Consolidated Income and Surplus for the year 19 and other corporate records of the Company and its wholly ow nations from officers and employes of the Companies; we also m ating and income accounts for the year, but we did not make a assets have been revised following requirements of the Internal preciation charged for the year of approximately $150,000.

In our opinion, based upon such examination, the accompan and Surplus fairly present, in accordance with accepted princi financial position at December 31, 1934 and the results of the

Chicago, Illinois—February 14, 1935.

BALANCE SHEET

R 31, 1934

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Notes Payable — banks		$ 500,000.00
Five-year 5% Gold Notes due May 1, 1935. (Redeemed January 10, 1935.)		375,000.00
Accounts Payable—		
Trade	$1,458,228.23	
Payroll and Commissions	51,510.65	
Interest and Taxes	579,199.89	
Employes' Deposits	12,485.50	
Dividends Payable	108,539.27	
Provision for Federal Income Tax and Capital Stock Tax (Estimated)	188,087.34	
		$ 2,398,050.88
Purchase money obligations due in 1935		104,500.00
Commercial Letters of Credit (Merchandise received or in Transit)		258,572.96
Total Current Liabilities		$ 3,636,123.84
PURCHASE MONEY OBLIGATIONS—DUE SUBSEQUENT TO 1935		542,950.00
FIVE-YEAR 5% GOLD NOTES, DUE MAY 1, 1935 (Redeemed on January 10, 1935 at par from proceeds of new issue of $3,000,000 three year 5% sinking fund notes dated December 15, 1934 but actually issued on January 8, 1935. An option agreement gives purchasers of new notes a right to purchase from the National Tea Co. ten shares of National Tea Co.'s common stock for each $1,000 par value of notes held)		$3,000,000.00
CONTINGENT RESERVE		71,646.57
PREFERRED STOCK, 5½% CUMULATIVE:		
Authorized and Issued ... 200,000 Shares of $10 each		2,000,000.00
Less: Held in Treasury 52,100 Shares		
Outstanding ... 147,900 Shares		
COMMON STOCK:		
Authorized ... 800,000 Shares of No Par Val.		8,250,000.00
Issued ... 660,000 Shares		
Less: Held in Treasury (Under option agreement) ... 30,000 Shares		
Outstanding ... 630,000 Shares		
EARNED SURPLUS:		
As per Statement attached	$6,892,760.61	
Less:		
Capital Stock held in Treasury—		
Preferred—52,100 Shares ... $517,849.25		
Common—30,000 Shares ... 324,566.05		
	842,415.30	
		6,050,345.31
		$23,551,065.72

e Sheet of National Tea Co. as at December 31, 1934 and of the
34. In connection therewith, we examined or tested accounting
ned Subsidiary Companies and obtained information and expla-
ade a general review of the accounting methods and of the oper-
detailed audit of the transactions. Depreciation rates on fixed
Revenue Department resulting in a comparative decrease in de-

ying Consolidated Balance Sheet and related statement of Income
ples of accounting consistently followed by the Companies, the
operations for the year.

ARTHUR YOUNG & CO.
Certified Public Accountants.

INCOME AND SURPLUS ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1934

SALES:			
Stores		$61,338,373.10	
Direct Warehouse Sales		1,450,877.12	
			$62,789,250.22
Deduct:			
Cost of Sales and Expenses, including Sales and Occupational Taxes		$61,336,635.73	
Depreciation		917,363.80	
Loss on Sale of fixed assets (net)		7,498.52	
			62,261,498.05
NET OPERATING PROFIT			$ 527,752.17
Add:			
Dividends from Nateco Realty Trust earned during 1934			35,000.00
Net Profit before deducting Provision for Federal Income Tax			$ 562,752.17
Provision for Federal Income Tax (estimated)			100,000.00
Net Profit transferred to Surplus			$ 462,752.17
Earned Surplus, January 1, 1934		$ 6,896,283.38	
Add:			
Credit arising from revision of depreciation rates and losses on assets disposed of for the years 1932-1933 based on rates determined by the Internal Revenue Department for year 1932 (less estimated income tax liability thereon)	$ 229,063.93		
Deduct:			
Transferred to Contingent Reserve for Depreciation	229,063.93		
Deduct:			
Dividends—			
Preferred	$ 81,347.64		
Common	384,927.30		
		466,274.94	
			6,430,008.44
Earned Surplus, as per Balance Sheet			$ 6,892,760.61

National Tea Co.

Directors

George Rasmussen

Frederick H. Massmann

Th. Rasmussen

Burt J. Dickens

Robert V. Rasmussen

Joseph L. Merrill

Officers

George Rasmussen
President

Frederick H. Massmann
Vice-President

Th. Rasmussen
Secretary & Treasurer

Burt J. Dickens
Assistant Secretary

W. E. Russell
Comptroller